



World Water Day: Water's investment wave: The favourable investment climate for water companies

Investors continue to be significantly underinvested in water

By Matthew Sheldon | March 22nd, 2017

World Water Day is held annually on 22nd March as a means of focussing attention on the importance of fresh water. Notwithstanding the efforts of the United Nations, which inaugurated this event, the importance of fresh water is almost always underappreciated, and as a result investors continue to be significantly underinvested in water. However, this offers investors an opportunity to gain exposure to a clean natural resource which has extremely strong demand/supply fundamentals, and which is the subject of what we believe to be a wave of significant investment. When we think about water (and most investors often don't!), there are some genuinely powerful drivers of the investment theme:

Inadequate Supply and Access: less than 1% of the world's water is available for use (the remainder is saltwater, polluted, in polar ice caps or otherwise unavailable) and this is increasingly threatened by pollution and depleting aquifers.

Increasing Demand: the demand for clean water is growing rapidly, due to population growth and industrialisation. Water demand is already growing at twice the rate of population growth.

Increasing Infrastructure Investment: an estimated \$12 trillion of infrastructure will be required by 2030 to address urgent global requirements for water and water services - about the same sum that is needed for power and telecoms infrastructure, which have far higher investor interest.

Increasing Regulation and Government Support: across the World, governments are insisting on higher standards for water and water waste services, as evidenced by the Safe Drinking Water Act in the US, the Water Framework Directive in Europe, and China's water standards. Regulation - both economic and environmental - is a backbone of support for investment in water.

It's no surprise then that our Portfolio Managers are seeing a wave of water investment projects, creating momentum in both developed and developing markets. In the US we see much increased bidding activity on water infrastructure projects, following something of a spending hiatus in the wake of the 2008 financial crisis. It has long been the case that water infrastructure in the US has had a replacement cycle well beyond its useful life, but there is only so long that you can avoid fixing something, especially when the consequences of not fixing it have very real social implications. Headlines such as the controversy surrounding water contamination in Flint, Michigan continue to highlight the need for water infrastructure upgrades, and with tax receipts and bond issuance up in the US, we are seeing good activity in US municipal spending on everything from pumps to treatment technologies, to leak detection to metering.

The ever-more-frequent extreme weather events that we are seeing across the globe these days have catalysed a process where first there is increasing

awareness of the issues, a consulting period where a plan to address these is devised, followed by projects being put out to tender and eventually equipment, technologies and services being procured. This is a multi-year process which provides a good tailwind for our strategy.

Finally, water re-use is an area we anticipate we will see strong growth in the coming years, and States like California, Florida, and Texas are leading the way in the US. It is an attractive alternative to desalination for many reasons and the market is expected to grow by 22% per annum in the medium term. Given the low penetration of re-use today, with just 2% of wastewater being recycled globally, there is a lot of room for growth. Moving to the developing world - where investment in water companies can have a particularly strong ESG impact in terms of the increasing supply of clean water - India is, according to Global Water Intelligence, among the fastest growing markets globally, growing at 12% per annum from 2014-2018. Only 70% of urban households and 30% of rural areas have access to piped water; the level of 'Non Revenue Water' (i.e. water lost in the system) is in the 30-50% range on average, and wastewater treatment is low or non-existent in most regions. India is notoriously bureaucratic, and project have become commonplace, but with Prime Minister Modi focused on the revival of investment through the introduction of new and more straightforward financing mechanisms, taking out the bottlenecks and encouraging foreign direct investment, we are starting to see some real and meaningful project activity on the ground.

Meanwhile, China is in the early stages of its 13th 5 year Water Pollution Prevention Plan; the Plan aims to triple spending on environmental protection compared with the last 5 Year Plan, half of which will be directed at water treatment and soil remediation. China will spend more than the US and Europe combined over the course of the next 5 years.

The projects being put out to tender in China are increasingly complex and incorporate elements of pollution remediation from industrial, agriculture, urban and rural environments in addition to increased capital expenditure on new water treatment and supply systems. This increased complexity is set to benefit the specialists in the market.

Bringing all of this together, we have rarely if ever been so upbeat about the prospects for the companies in which we invest. A combination of circumstances around the World is putting in place a very favourable investment climate, in our view, for water companies. We encourage investors to take a serious look at this under-researched and under-invested segment of the market.

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